

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Investigation to Consider Policies to Achieve the Commission's Conservation Objectives for Class A Water Utilities.	Investigation 07-01-022 (Filed January 11, 2007)
In the Matter of the Application of Golden State Water Company (U 133 E) for Authority to Implement Changes in Ratesetting Mechanisms and Reallocation of Rates.	Application 06-09-006 (Filed September 6, 2006)
Application of California Water Service Company (U 60 W), a California Corporation, requesting an order from the California Public Utilities Commission Authorizing Applicant to Establish a Water Revenue Balancing Account, a Conservation Memorandum Account, and Implement Increasing Block Rates.	Application 06-10-026 (Filed October 23, 2006)
Application of Park Water Company (U 314 W) for Authority to Implement a Water Revenue Adjustment Mechanism, Increasing Block Rate Design and a Conservation Memorandum Account.	Application 06-11-009 (Filed November 20, 2006)
Application of Suburban Water Systems (U 339 W) for Authorization to Implement a Low Income Assistance Program, an Increasing Block Rate Design, and a Water Revenue Adjustment Mechanism.	Application 06-11-010 (Filed November 22, 2006)
Application of San Jose Water Company (U 168 W) for an Order Approving its Proposal to Implement the Objectives of the Water Action Plan	Application 07-03-019 (Filed March 19, 2007)

**REPLY COMMENTS OF THE DIVISION OF RATEPAYER ADVOCATES
ON PHASE 2 ISSUES**

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The Division of Ratepayer Advocates ("DRA") respectfully submits these Reply Comments pursuant to the February 8, 2008, Assigned Commissioner's Ruling and Phase 2 Scoping Memo ("Scoping Memo").

I. BACKGROUND

In his February 8, 2008, Scoping Memo, the Assigned Commissioner sought comments on a broad range of non-rate design conservation measures.¹ In its Opening Comments, DRA addresss a number of the issues but offered more extensive comments in the following areas:

- 1) Best management practices;
- 2) Adopting goals, metrics, and reporting protocols;
- 3) Incentives to promote conservation and financial rewards for achieving conservation;
- 4) Integrating conservation and infrastructure needs;
- 5) The importance of water metering to achieve conservation; and
- 6) Integrated water resource management (“IWRM”).

On May 12, 2008, DRA sponsored an informal meeting (“May 12th meeting”) with the parties to identify potential areas of consensus. A professional facilitator skilled in Dialogue Mapping ran the meeting.² Prior to the meeting, DRA met with the facilitator and several parties to identify a set of topic areas, with questions, for discussion at the meeting. These questions were designed to focus the discussion on the main themes identified by DRA and other parties in opening comments. Parties also developed four procedural options for prioritizing next steps.³

The facilitator subsequently provided DRA with copies of the dialogue maps and text outline from the meeting and posted the information online for parties’ convenience.

¹ Scoping Memo, pp 3-10.

² Jeff Conklin, Cognexus. With Dialogue Mapping a facilitator uses Compendium software to create maps of a group conversation. The facilitator captures what people are saying in a hypertext diagram on a screen. The conversation maps integrate the topic of discussion, problems, solutions, and various view points in an issues-based format. As the conversation unfolds and the map grows, each person can see a summary of the meeting discussion as it develops.

³ The four procedural options were: resolve in Phase 2, handle through alternative dispute resolution, handle in subsequent proceeding, and set aside.

The discussion is organized by topic.⁴ DRA then wrote up an informal report of the meeting and provided it to parties. The discussion and format of the March 12th meeting were productive in helping the parties to focus on high priority issues, identify areas of agreement, and generate understanding of differing views. DRA recommends this type of format for future workshops.

II. SUMMARY OF RECOMMENDATIONS

DRA's reply comments are organized around the topic areas in the questions discussed in the May 12th meeting and proposals raised by other parties in opening comments or the May 12th meeting. In particular, DRA appreciates the succinct list of policy recommendations provided by Public Officials for Water and Environmental Reform and Natural Resources Defense Council ("POWER/NRDC").⁵ The following DRA recommendations are discussed in greater detail in section III.

1. **Goals: Adopt the Governor's 20 percent reduction goal as a minimum.**
DRA recommends that the Commission, as a minimum, adopt the Governor's water efficiency goal of a 20 percent reduction in per capita usage by 2020. In addition, DRA recommends that the Commission hold a technical workshop(s) to define scale, baseline, demand reduction targets for each customer class, equity issues, performance metrics, cost effectiveness issues, and reporting requirements.
2. **Performance-based approach to conservation programs: Support the BMPs as optional, but not mandatory, measures to meet a quantitative goal.** DRA recommends that the Commission consider the BMPs as optional means for achieving conservation goals, but implementation of the BMPs should not be mandatory and other means should be considered.
3. **Reporting Requirements: Require annual reporting on conservation and open a new rulemaking to address metrics and reporting requirements.** DRA supports POWER/NRDC's recommendation to standardize evaluation, measurement, and verification protocols for reporting. DRA further

⁴ Both can be viewed online at http://cognexus.org/Clients/CPUC/Compendium_maps/top.html (Username: guest, Password: conserve). The outline is in a printable format.

⁵ POWER/NRDC Comments, pp. 4-5.

recommends that these protocols and reporting requirements be considered in a new rulemaking.

4. **Incentives: Remove financial disincentives.** DRA supports the use of revenue decoupling mechanisms for utilities that currently have a disincentive to conserve water. If the Commission wishes to investigate options for additional utility incentives and/or penalties, DRA recommends this be done later, after goals are set; evaluation, measurement and verification protocols are established; and reporting requirements have been considered and adopted.
5. **Low-income water conservation: Establish a low-income water use efficiency program.** To ensure that low-income water customers receive some of the benefits of conservation spending, DRA recommends that the Commission require utilities to target a portion of their conservation program spending for low-income customer households.
6. **Conservation, Infrastructure and Integrated Regional Water Management:**⁶ DRA recommends the Commission direct water utilities to perform individual district-specific “integrated resource planning” and require them to include in general rate case (“GRC”) applications a substantiated capital investment plan with an integrated resource planning approach.
7. **Advanced Metering: Establish a forum to gather additional information on Advanced Metering Infrastructure (“AMI”) and Advanced Meter Reading (“AMR”) for water utilities.** DRA recommends that the Commission create a forum to gather additional information on AMI and AMR for water utilities that could take the form of pilot programs or a technical workshop and would include the electric and/or gas utilities.
8. **Enhance Recycled Water Use:** DRA recommends that the Commission open a rulemaking to determine recycled water goals for each Class A utility and mechanisms for each utility to meet those goals and to develop rate design principles for pricing recycled water.

⁶ This recommendation addresses two questions from the May 12th DRA sponsored meeting: “What can the Commission do that will have an impact on conservation through infrastructure?” and “What is needed for the Commission to use IWRM as a long term supply planning tool with capabilities to be responsive to short term conditions such as drought?”

9. **Energy Savings and Green Technologies:** DRA recommends that the Commission ensure the Class A water utilities address energy savings in their GRC applications.
10. **Climate Action Registry:** DRA recommends that the Commission require all Class A water utilities to join the Climate Action Registry.

In addition to the above topic areas taken from the May 12, 2008 informal dialogue, DRA supports the following policies:

11. **Accountability for funds spent: Place revenues authorized for cost-effective conservation programs in a one-way balancing account.** DRA agrees with The Utility Reform Network, The National Consumer Law Center, and Disability Rights Advocates (“Joint Consumers”) in opposing a “[conservation] program that merely serves to enrich the utility, no matter how good the intentions.”⁷ DRA has observed that in the past utilities have not always spent their conservation budget as authorized, meaning that funds collected from ratepayers to support conservation may be spent on other activities or go towards improving returns for shareholders. To protect ratepayers and ensure that conservation programs are not reduced by spending on other activities, DRA recommends that all utility conservation budgets be subject to one-way balancing account treatment where any unspent funds revert to ratepayers in the next GRC.
12. **Partnerships to leverage conservation funding: Encourage partnerships with other agencies, organizations and energy utilities to leverage ratepayer investment in conservation.** DRA supports comments by Joint Consumers encouraging the Commission and utilities to investigate partnerships with other state agencies, wholesale water suppliers, and utilities.⁸ DRA further recommends the Commission consider the efforts of other agencies or utilities when approving conservation budgets to avoid duplicative spending on conservation programs. In addition, where partnerships with other agencies or organizations provide a more cost-effective strategy to meeting overall district water reduction targets than utility spending alone, they should be considered as a viable alternative.

⁷ Joint Consumers Comments, p. 3.

⁸ *Id.* at p. 4.

III. DISCUSSION

1. **Conservation Goals: The Commission should adopt the Governor's 20 percent per capita reduction goal but allow flexibility in implementation**

In its Opening Comments, DRA recommends that the Commission adopt the Governor's goal of a 20 percent reduction in per capita water use as an initial conservation objective.² POWER/NRDC's Opening Comments also support the Governor's proposal as a "point of departure."¹⁰ Like DRA, POWER/NRDC recommends some flexibility in implementing the 20 percent objective. For example, POWER/NRDC states that identical reductions across all customer classes are not necessary.¹¹ DRA recommends the Commission adopt a flexible approach, which would encourage utilities to identify segments of their customer population to target reductions and would account for any unique characteristics of Commission-regulated water utilities. This would be done as part of their GRCs.

Other parties indicate that the Governor's overall conservation goal is attainable. In its comments, Apple Valley Ranchos ("Apple Valley") states that while it cannot determine with any comfort level that a 1-2 percent annual reduction in its service territory would be reasonable, it did hope that its conservation efforts and future pricing signals would achieve or exceed that level.¹² As the California Water Association ("CWA") notes in its comments, in the Phase 1A decision the Commission adopted a 1 percent to 2 percent annual reduction in consumption for Park Water Company ("Park"), Suburban Water Systems ("Suburban") and California Water Service Company ("Cal

⁹ DRA Comments, p. 6. See February 28, 2008 letter from Governor Arnold Schwarzenegger to State Senators Don Perata, Darrell Steinberg, and Mike Machado outlining proposed solutions to California's water supply issues. <http://gov.ca.gov/index.php?/press-release/8911/>. One key element under development by the Governor is: "**A plan to achieve a 20 percent reduction in per capita water use statewide by 2020.** Conservation is one of the key ways to provide water for Californians and protect and improve the Delta ecosystem. A number of efforts are already underway to expand conservation programs, but I plan to direct state agencies to develop this more aggressive plan and implement it to the extent permitted by current law. I would welcome legislation to incorporate this goal into statute."

¹⁰ POWER/NRDC Comments, p. 10.

¹¹ *Ibid.*

¹² Apple Valley Comments, p. 4

Water”) and states that this target should apply to all Class A water utilities until a full conservation program was in place.¹³ It further states:

Since Class A water utilities operate on a three-year rate case cycle, our goal for water conservation should range, at a minimum, from a 3%-6% reduction in per customer or service connection consumption every three years once a full conservation program, with price and non-price components, is in place.¹⁴

DRA notes that a 1 to 2 percent annual reduction per customer is in the same range as the Governor’s proposal.¹⁵ However, his proposal refers to “per capita” reduction in water use. The Commission may need to more fully explore the pros and cons of one metric over the other, or whether the Commission should track various metrics.¹⁶

CWA recommends that any adopted goals remain flexible at this time. CWA notes that the Legislature is currently considering how to “establish a numeric water conservation target for California that provides for the maximum feasible and cost effective increase in water conservation.”¹⁷ While CWA states that the Commission must consider regional or utility specific goals, weather normalization, and past conservation efforts when setting goals and evaluating performance,¹⁸ DRA asserts that adopting the Governor’s goal as an initial conservation objective does not preclude the Commission from considering the relevance of these elements on a district-specific basis.

¹³ CWA Comments, p. 20.

¹⁴ D.08-03-036 at p. 11. In footnote 14 the Commission further states that “[u]ntil we finalize a targeted reduction in consumption, Class A water utilities shall comply with D.07-05-062’s required water conservation plan by stating how price and non-price programs will achieve reductions of 1% to 2% annually during the GRC cycle.” (D.08-02-036, n. 14.) However, there are no ordering paragraphs on this issue in D.08-02-036.

¹⁵ A targeted reduction in consumption of approximately 1.3 percent a year for 11 years (2009 – 2019) would achieve the 20 percent reduction by 2020.

¹⁶ For example, the BMP “scorecard” currently tracks three metrics: and “gallons per capita per day” (GPCD) for residential only, GPCD including CII, “gallons per customer/connection per day. It is DRA’s understanding they are also considering tracking such metrics as “acre feet per day”. See <http://www.cawaterpolicy.us/scorecard.php>

¹⁷ CWA Comments, p. 21, quoting AB 2175.

¹⁸ CWA Comments, pp. 21-22

DRA recommends that the Commission formalize the targeted reduction in consumption of 1 percent to 2 percent per year per customer or service connection required in the Phase 1A decision (D.08-02-036) for each Class A water utility as an interim goal. As noted above, this goal is generally consistent with the Governor’s call for a 20 percent reduction in per capita water use by 2020.¹⁹ DRA suggests that the Commission hold one or more technical workshops with parties to discuss implementation details of the Governor’s plan for investor owned water utilities as part of this OIR.²⁰ These workshops should address the scale, baseline, and demand reduction targets for each customer class, equity issues (such as conservation targets for low consumption districts and impacts on and benefits for low income customers), performance metrics, cost effectiveness issues, and reporting. These workshops can also address changes that are necessary to the Rate Case Plan (“RCP”) to align the requirements adopted in this proceeding with the RCP requirements. DRA recommends that following the workshop, the Commission issue an interim decision adopting implementation details for Class A water companies to achieve a 20 percent reduction by 2020.

Once AB 2175 (or equivalent legislation) places the Governor’s mandate into statute and more specific guidance from the Department of Water Resources (“DWR”) is available, the Commission can initiate a process to revise goals and requirements for investor owned water utilities if necessary.²¹ DWR is currently taking the lead on a multi-agency planning process²² to establish performance metrics to track success of the

¹⁹ See footnote 10. A targeted reduction in consumption of approximately 1.3 percent a year for 11 years (2009 – 2019) would achieve the 20 percent reduction by 2020.

²⁰ Alternately, the Commission could issue a new rulemaking to consider the Governor’s 20 percent conservation goal and hold workshops as part of that OIR.

²¹ If the Commission chooses to open a rulemaking to consider the Governor’s goal, it can leave the rulemaking open after issuing an interim decision, to allow further adjustments to the plan on the same docket.

²² DWR is coordinating the development of the new plan, and is working in conjunction with the State Water Resources Control Board, the California Energy Commission, the Department of Public Health and the Commission. The Bureau of Reclamation, a federal agency, is also participating on the team as is the California Urban Water Conservation Council (“CUWCC”). DWR is considering implementation issues

effort in meeting conservation goals, measurement and monitoring tools, and evaluation criteria.²³ The Commission should act in concert with the legislative mandates and DWR implementation initiatives.

2. The Commission should require performance-based approach to conservation programs.

In its Opening Comments, POWER/NRDC recommends:

the Commission require Class A and B utilities to sign the MOU [memorandum of understanding] and to fully document their implementation of the BMPs. However, the Commission should adopt a quantitative water-saving goal for regulated water companies, and while implementation of BMPs will be helpful, it may not be sufficient to achieve the level of savings called for by the goal.²⁴

DRA supports the adoption of a quantitative goal that may be met through the implementation of the BMPs, *among other options*, as stated in its Opening Comments. DRA agrees with NRDC/POWER that utilities should be required to sign the California Urban Water Conservation Council (“CUWCC”) memorandum of understanding (“MOU”), if they have not already, and that BMPs should be considered as one possible means for achieving conservation goals, but that implementation of the BMPs should not be mandatory. Instead, utilities should submit conservation plans in their GRCs that address which BMPs and other activities they intend to implement in order to meet their conservation goal.²⁵ This way, the utility’s focus will be on program results -- the actual

such as establishing baseline information, quantifying conservation targets and strategies, estimating water savings towards targets as a result of current efforts, estimating water saving towards targets as a result of new actions, and developing implementation plans for various conservation actions.

²³ See Key 20 percent by 2020 Workplan Tasks at http://www.waterplan.water.ca.gov/docs/meeting_materials/regional/2008/0602/20X2020_Workplan_05-30-08.pdf and *Questions and Answers - Achieving Governor Schwarzenegger’s New Water Conservation Goal*

http://www.waterplan.water.ca.gov/docs/meeting_materials/regional/2008/0602/20X2020_Q&A_for_AR_F_05-30-08.pdf

²⁴ POWER/NRDC Comments, p. 6.

²⁵ DRA evaluates utilities’ proposed conservation programs based on the following criteria:

conservation achieved in the most efficient way possible -- rather than on processes and activities that may or may not be the most cost-effective means of conserving water.

As part of the GRC, these conservation plans will be subject to DRA evaluation and Commission review, which will provide a level of accountability beyond what currently exists through the CUWCC. CWA, however, states that it is not necessary or appropriate for the Commission to mandate compliance with the 14 BMPs because “[a]ll the Class A water utilities now are signatories to the MOU, and already are in compliance or are moving into compliance with the 14 BMPs.”²⁶ However, POWER/NRDC raises concerns about the CUWCC’s lack of enforcement and compliance authority:

The Commission has authority as a regulatory body whereas the CUWCC is a nonprofit organization with no regulatory authority. The issue of enforceability is challenging within the Council. There is a spotty history among signatory utilities of compliance with BMPs, no sanctions for non compliance, no system of verification (or certification of results), and an MOU which is fundamentally a voluntary process including reporting.²⁷

(1) A quantitative target for reduction in water demand over the GRC period, based on the goal set by the Commission. DRA acknowledges that the utility’s goal may also be more ambitious than the Commission’s goal, *e.g.*, if it is more cost-effective or if mandatory reductions are required due to adjudication of a groundwater basin or court orders reducing surface water withdrawal.

(2) Historical conservation spending by the utility or other entities in the company’s service area. This data helps the Commission evaluate the ability of each utility to implement conservation activities. For utilities with historically low conservation spending, for example, a phased-in approach may be necessary to allow the utility to develop experience and hire and train staff to implement conservation programs.

(3) Cost-effectiveness and reasonable payback period. DRA expects the utilities to evaluate and rank the cost-effectiveness of various conservation activities (including BMPs) and include the results in their GRCs. Utilities should provide a summary of the assumptions going into their avoided cost methodology as well as all workpapers. Utilities should also calculate the payback period of each program and include this information in their GRC.

(4) A comparison with other water utilities’ conservation budgets. The Commission should take into consideration the conservation activities and budgets of utilities in similar geographic regions and with similar customer bases when reviewing conservation requests in GRCs.

²⁶ CWA Comments, p. 4.

²⁷ POWER/NRDC Comments, p. 6. The conservation scorecard kept by POWER (http://www.cawaterpolicy.us/scorecard_bg.php) indicates that as of the end of 2007, only four water utilities had successfully implemented all fourteen BMPs and only two completed all BMPs without declaring an exemption. About 15 percent of the water utilities did not report compliance data at all, and only 5 of 14 BMPs have more than 75 percent of water utilities in compliance.

POWER/NRDC also point out that utilities can self-declare exemptions to BMPs rather than having an outside body review rationale for not complying with a BMP.

Instead of requiring implementation of the BMPs under the current CUWCC reporting system the Commission should require that utilities provide a rationale for elements of conservation programs in their GRC, including reasons for implementing or not implementing each BMP.²⁸ Compliance with BMPs and other activities selected to meet conservation goals would then be subject to review by the Commission. This requirement also addresses concerns raised by Park Water, which opposed mandatory implementation of BMPs because in some cases they are not cost effective, funding is not available, or a BMP does not apply to a utility.²⁹ The flexibility in DRA's proposal will prevent utilities from having to implement BMPs that may be unreasonable, inefficient, or overly costly in their particular case.

3. The Commission Should Address Metrics and Reporting in a New Rulemaking.

In its Opening Comments, DRA recommends that the Commission develop, in a separate rulemaking, metrics and reporting protocols to ensure transparency and accountability.³⁰ In contrast, CWA states that it does not believe that any new reporting requirements are necessary.³¹ CWA states:

The Class A water utilities already are subject to extensive reporting requirements imposed by the Commission and also as members of the CUWCC. Water utilities also are required to file annual reports with the Commission including information on water sales and on conservation programs. Utilities further are required to provide a plethora of data with

²⁸ The BMPs are currently undergoing revision, both for specific programs and the system of implementation. This process may result in a system more in line with DRA's recommendations than the current situation. However, the revisions are unlikely to be completed before the end of this year. The Commission should remain informed of the BMP revision process but in the meantime should establish its own goals and plans for meeting the goals.

²⁹ Park Comments, pp. 2-3.

³⁰ DRA Comments, p. 7.

³¹ CWA Comments, pp. 24-25.

their GRC applications, including information on water sales and water production such as “[s]ales per customer for different customer classes (in CCF/customer) for the last authorized test year, [and] last five years recorded data...” CWA does not believe that any new reporting requirements are required. The extensive information currently required to be submitted with a GRC application under the new rate case plan contains all of the necessary data needed to track the results of a utility’s water conservation programs. Indeed, the appropriate venue for reporting the results of water conservation programs is each utility’s GRC proceeding. Parties proposing additional conservation reporting requirements should reference the existing reporting requirements including those specified by the rate case plan as well as the additional conservation program reporting ordered recently in individual water utility GRC decisions.³²

DRA acknowledges that some reporting requirements already exist, and as stated in its opening comments, there is a need to integrate new requirements with existing requirements. However, DRA disagrees that current reporting requirements provide the Commission with all the data necessary to evaluate a proposed performance-based conservation program or effectively evaluate such a water conservation program after the fact.

Current CUWCC reporting emphasizes conservation *activities* such as rebates provided, audits performed, and outreach activities completed, rather than *performance* in terms of water savings achieved.³³ For most conservation programs, utilities should be able to measure water savings based on a cost per unit of water saved approach.³⁴ In addition, because the CUWCC reporting is voluntary, and CUWCC has no system of

³² *Id.*

³³ NRDC/POWER Comments, p. 12; POWER BMP Conservation Scorecard at <http://www.cawaterpolicy.us/scorecard.php>.

³⁴ DRA acknowledges that programs such as school education and public information campaigns may have water savings that are more difficult to quantify. Nevertheless, metrics for appropriate levels of spending on these programs are needed as well.

verification (or certification of results) and no enforcement powers, DRA recommends at a minimum that current utility conservation reporting be audited for verification.

In adopting water conservation goals, the Commission is signaling its interest in moving from activities-based goals to performance-based goals. In some applications, the Commission is starting to require additional information prior to evaluating utility conservation program budgets. For example, in A.07-12-010 (Cal Am, Monterey Conservation Application) the Commission has asked Cal Am to respond to the following questions on conservation and rationing:³⁵

1. Long and short-term priorities for obtaining water savings. Plan for methodical steps to achieve priority water savings.
2. Verification of water savings.
3. Tying on-going funding to verifiable results.
4. Requiring strong water conservation measures to avoid overall water rationing.
5. Quantifying the extent to which potable water is used for landscape irrigation in the Monterey district and considering plans to diminish or eliminate the need for this use of potable water.
6. Identify and quantify all proposed conservation and rationing expenditures by Cal-Am. Separately list all personnel costs and general advertising or outreach activities.
7. Develop a plan to maximize the use of cost-free publicity, i.e., press releases, interviews, public service messages, bill inserts, existing web sites, electronic mail distribution lists, cooperative ventures with local government.
8. Evaluate funding-specific measures for customers, e.g., extending recycled water lines to large irrigation customers, as an alternative to advertising or other vague efforts.
9. Develop and evaluate least-cost rationing strategies that focus on actual water savings.

³⁵ A.07-12-010, May 9, 2008 Joint Assigned Commissioner and Administrative Law Judges' Ruling Setting Special Procedures to Develop Record on Conservation and Rationing Programs, Attachment 1.

10. Catalogue and assess the customer privacy implications of rationing strategies based on specific customer information, such as number of occupants, fixtures, and appliance use.
11. Any other issue that affects the efficiency or effectiveness of the water saving efforts.

Further, the Phase IA decision also imposed additional reporting requirements on Suburban, Park and CalWater. In D.08-02-036, the Commission ordered:

Suburban, Park, and CalWater shall provide the following information in their next general rate case: monthly or bimonthly (depending upon the billing cycle) per customer or service connection changes in consumption by district, separated by meter size and customer class, following the implementation of the conservation rate design trial programs; surcredits or surcharges by district and customer class implemented in amortizing WRAMs and/or WRAMs/MCBAs; increase or decrease in disconnecting low-income program participants for nonpayment by district after adoption of conservation rate designs; increase or decrease in low-income program participation by district after adoption of conservation rate designs; increase or decrease in residential disconnections for nonpayment by district after adoption of conservation rate designs; identification of any weather or supply interruption that might contribute to consumption changes in districts; and any other district-specific factor that might contribute to consumption changes.³⁶

Improved accountability is needed not only to evaluate proposed conservation budgets and programs, but also to evaluate measure and verify conservation programs that have been implemented.³⁷ Improved accountability requires metrics, standards, monitoring, and enforcement which have yet to be developed.³⁸ For this reason, DRA

³⁶ D.08-02-036, Ordering Paragraph 6.

³⁷ Questions such as whether goals should be defined on a “per capita” or “per customer” basis, and what goes into computing those averages is an example of one of the issues that must be resolved.

³⁸ Thomas W. Chesnutt (1997). Performance Standards for Demonstrating Urban Water Conservation. A Briefing Book prepared for California Urban Water Agencies, at page 5.

recommends that the Commission open a rulemaking to address these issues. The Commission should consider various metrics,³⁹ and should develop reporting requirements that include sufficient data to evaluate water savings achieved using standardized metrics. The Commission should require standardized reporting for all Class A water companies to enable future comparisons across companies and water systems and to evaluate conservation efforts over time. DRA recommends that such a rulemaking have a series of technical workshops.⁴⁰ DRA recommends the Commission initiate the rulemaking, but then allow parties a period of time to productively engage and develop ideas between meetings and to identify areas of consensus.

Ratepayers should have the benefit of a fully vetted record as it relates to reporting of conservation metrics. This record will be even more essential if the Commission considers those metrics and reporting for any incentive program. In sum, an industry-wide rulemaking to refine goals, metrics and reporting protocols will give the Commission an opportunity to establish the metrics and reporting it will need to evaluate conservation expenditures.

4. Incentives: Revenue Decoupling Mechanism Is Sufficient For Now

DRA supports the use of revenue decoupling mechanisms for utilities that currently have a disincentive to conserve water. DRA has worked with several utilities to establish pilot programs for conservation rates and revenue decoupling mechanisms.⁴¹ In

³⁹ Metrics such as a percentage consumption reduction, a per capita or per connection reduction, reduction in total consumption or consumption by customer class are examples of metrics that could be considered.

⁴⁰ DRA received a number of positive responses to the informal conversation DRA hosted on May 12, 2008 using Dialogue Mapping, Compendium and Go To Meeting. The unique approach allowed several parties to participate and follow the meeting dialogue from a distance. The dialogue maps were used in lieu of flip charts and were later posted on the web. The maps are also reduced easily into outlines of the major issues discussed. DRA relied on such an outline in drafting its report of the meeting. To view both the maps of DRA's informal meeting and the basic outline from the maps, see http://cognexus.org/Clients/CPUC/Compendium_maps/top.html (Username: guest, Password: conserve).

⁴¹ D.08-02-036 approves DRA settlements with California Water Service and Park for a Water Rate Adjustment Mechanism (WRAM) in conjunction with a Modified Cost Balancing Account (MCBA) which together decouple revenues from sales. D.08-06-002 adopted DRA's settlement on WRAM/MCBA with California American Water for its San Marino, Duarte and Baldwin Hills districts

addition, if the Commission wishes to investigate options for additional utility incentives and/or penalties, DRA recommends that the Commission open an industry-wide proceeding to consider them. The Commission should open such a proceeding only after demand reduction goals are set, savings targets are in place, performance metrics established, and evaluation, measurement and verification protocols and reporting requirements have been considered and adopted.⁴²

While it is true that there are differences in geography, climate and water supply among the Class A water utilities, DRA disagrees with CWA's assertion that these differences suggest that "programs providing for financial rewards and an opportunity for higher earnings resulting from successful conservation efforts be individually tailored for each utility."⁴³ A foundational issue is whether rewards or penalties are warranted. Beyond instituting revenue decoupling mechanisms to remove any disincentive the utility might have to conserve water, there is no need for additional financial rewards at this stage, particularly for activity-based conservation programs. Moreover, water conservation is now a state-wide goal, not merely a Commission initiative, thus in pursuing conservation programs, water utilities are following state policy.

However, once demand reduction goals, savings targets, and performance metrics are established, the Commission may want to consider enforcement and incentives to help meet demand reduction goals. Any consideration of rewards or penalties should be done on an industry-wide basis. Having each utility propose financial rewards in their next general rate case, however, is not only premature, it will result in disparate policy on this matter.⁴⁴

on June 12, 2008. And DRA has settled on a WRAM/MCBA with GSWC in Phase 1B. All of these settlements also included the establishment of conservation rate designs as well.

⁴² DRA Comments, pp. 12-13 states, "Finally, DRA recommends that, if the Commission considers financial rewards for water conservation programs, it should do so only after it has information on how the initial conservation rate pilot projects impact water company earnings. At the same time, it should also consider the most appropriate vehicles for integrating conservation costs and avoided cost into revenue requirement."

⁴³ CWA Comments, p. 44.

⁴⁴ DRA addresses this issue further in its Comments at p. 11.

5. Low-income water use efficiency

As Joint Consumers point out, there is a risk that rebate programs, while paid for by all customers, will only benefit customers who can afford the upfront expense of purchasing fixtures.⁴⁵ Even with a rebate, these fixtures may be too expensive to benefit low-income consumers.⁴⁶

DRA supports Joint Consumers' recommendation that rebate programs not come at the expense of other more comprehensive conservation programs,⁴⁷ and further recommends that the Commission earmark a portion of conservation program spending to benefit low-income customer households. This spending should go towards a low-income water efficiency program with activities such as subsidizing leak detection and repair and providing free replacement of inefficient fixtures for low-income water customers.

6. Conservation, Infrastructure, and Integrated Water Resource Management

In their opening comments, POWER/NRDC recommend that water agencies adopt a performance-based approach to water conservation. They argue:

[a]gencies need to have a 'conservation plan' on the demand side, just as agencies have a capital improvement plan on the supply side. Those plans should be fully integrated into the agency's Integrated Resource Plan (IRP). Agency IRPs should be consistent with the Integrated Regional Water Management Plans.⁴⁸

DRA agrees with the spirit of POWER/NRDC comments and contends that the Department of Water Resources and/or the Commission may already have the authority to enforce such recommendations to the extent that the POWER/NRDC recommendations are already part of the Urban Water Management Planning Act.

⁴⁵ Joint Consumers' Comments, p. 5.

⁴⁶ *Ibid.*

⁴⁷ *Id.* at p. 6.

⁴⁸ POWER/NRDC Comments, p. 12.

(“UWMP”) ⁴⁹ While Park notes that changes to the UWMP would require legislative changes,⁵⁰ it may be possible for the Commission to influence the water utilities to more completely implement the existing requirements without legislative changes.

Park provides a definition of Integrated Water Resource Management plan (“IWRM”) in its comments.⁵¹ DRA agrees with this definition and asserts that in the State of California the existing regulations regarding development of the Urban Water Management Plan bear the closest resemblance to IWRM, and an Urban Water Management Plan would be a key component of IWRM. Class A water utilities are required to provide their demand side management plans when they submit the Urban Water Management Plan.⁵² Furthermore, the Water Code states that: the adoption of the Urban Water Management Plan shall satisfy any requirements of state law...for the preparation of a water management plan or conservation plan.⁵³

CWA and Park argue that implementing IWRM is not practical right now for Class A water utilities.⁵⁴ Apple Valley argues that it does not seem at all reasonable to expect a retailer to implement an IWRM and any IWRM would have to be on a regional basis.⁵⁵

The Class A water utilities should be coordinating with other water managers in their regions, as this coordination is the intent of the Urban Water Management Plan Act. Hence, IWRM planning is not an isolated utility activity but a cooperative one.

⁴⁹ California Water Code Division 6, Part 2.6. Urban Water Management Planning, also, cited by CFC at pp. 5-6.

⁵⁰ Park Comments, p. 13.

⁵¹ *Id.* at p. 11, “The AWWA Journal (April 2007) describes IWRM as a ‘highly participatory process to prepare and regularly update a long-range water resource plan that balances the least-cost analysis of supply-side and demand-side water management options with protection of natural resources and aquatic ecosystem.’”

⁵² Water Code § 10631

⁵³ Water Code does not limit the Commission from obtaining additional information to implement its existing authority. Water Code § 10653.

⁵⁴ Park Comments, p. 11, CWA Comments, p. 29.

⁵⁵ Apple Valley Comments, p. 5.

DRA recommends that the Commission encourage or mandate Class A water utilities to fully implement those concepts of integrated water management and integrated resource planning that are part of the Urban Water Management Planning Act of 1983.⁵⁶ As an initial matter, the Commission should clarify that it expects each water utility to be performing “integrated resource planning.” As defined in Journal AWWA,⁵⁷ integrated resource planning emphasizes demand management and conservation as potential alternatives to building increasingly expensive new capacity. It encourages new institutional roles and new analytical tools to bring about a broader perspective in water resource planning. The purpose of integrated resource planning is to ensure that water utility resource planning decisions incorporate considerations beyond merely the direct costs and benefits to the utility but also consider factors that are external to the utility that will affect its operations.

Specifically, the Commission should direct water utilities to perform district-specific “integrated resource planning” and include in the GRC Application a substantiated capital investment plan that reflects an integrated resource planning approach. Doing so will ensure that the full range of water supply options (including demand management) are given due consideration in utility resource planning decisions.

Adopting this type of IRP may require the following changes:

1. Development of a common definition of integrated resource planning and other forms of least cost planning such as comprehensive asset management planning.⁵⁸
2. Adoption of models to clarify what elements comprise integrated resource planning.
3. Requiring utilities to provide a prioritized water resource planning portfolio that clearly shows the total expected demand, and the proportion of various

⁵⁶ Because it appears the parties are using so many different definitions of IRP, IWM, IWRM, and IRWM, it may benefit the Commission to define these terms, develop models, and have parties discuss and reach consensus on what this means.

⁵⁷ Janice A Beecher, *Integrated Resource Planning Fundamentals*, Journal AWWA American Water Works Association / Edition: Vol. 87 - No. 6; 01-Jun-1995.

⁵⁸ Comprehensive asset management plans were mandated by D.07-05-062 in the revised Rate Case Plan.

supply and demand strategies proposed for meeting overall need. Also, requiring utilities to demonstrate how each strategy was justified and selected.⁵⁹

4. Requiring water utilities to submit long-term urban water management plans⁶⁰ that can forecast water supply needs, long-term estimated rate impacts, operations and maintenance expenditure forecasts and capital expenditure forecasts for the whole period. It would be assumed that such forecasts would be prepared with more certainty in the short-term and less in the long term.

Further, in response to the Scoping Memo question on avoided costs and IWRM, Park states that it does not believe that tracking of avoided cost is necessary nor should IWRM be a utility specific activity.⁶¹ DRA disagrees. As stated by POWER/NRDC:

We recommend that all Class A water companies compute their avoided cost of water to establish a clear and quantitative value for the water to be saved by conservation efforts. A methodology, such as the council's avoided cost model, should be used that incorporates both short-run operating costs and long-run capital costs. The Direct Utility Avoided Cost and Environmental Benefits Model was developed by Lawrence Berkeley Laboratory under contract from CUWCC, and was fully accepted by the Council. The model can be found at www.cuwcc.org Technical Services link. Avoided costs should be updated for each planning cycle – in the case of Class A water utilities, every three years would seem to be appropriate.⁶²

⁵⁹ Require the water utility to fully substantiate its requests for additional water supply within a thorough project justification that includes benefit-cost analysis of the multiple viable project alternatives that were considered, along with both quantitative and qualitative dimensions. Some of the viable options or some of the dimensions of the analysis are not readily quantifiable. Such benefit-cost analysis would address not only the economic value of the project proposals, but also their environmental, political, cultural, and societal impacts.

⁶⁰ The Commission's Revised Rate Case Plan requires the Water Utility to "[d]emonstrate compliance with § 10620 of the California Water Code which requires the utility to prepare an Urban Water Management Plan. The utility shall demonstrate compliance by providing a copy of the letter the utility has received from DWR affirming a completed Urban Water Management Plan." (D.07-05-062, p. A-27.)

⁶¹ Park Comments, p. 13.

⁶² POWER/NDRRC Comments, p. 14.

DRA recommends the Commission issue a rulemaking to adopt a standardized methodology the Class A utilities should use for calculating avoided cost.⁶³ This rulemaking should start with the CUWCC methodology for avoided cost as outlined by POWER/NRDC and then invite comments from parties. DRA also recommends the Commission hold a technical workshop as part of this rulemaking. This could be a relatively brief rulemaking. A rulemaking will allow all parties due process, and will clarify Commission expectations with regard to required justification for conservation applications and supply additions in integrated resource plans.

7. Advanced Metering Technology: The Commission Should Further Investigate the Applicability of Advanced Metering Technology to the Water Industry and its Ratepayers

In their comments the Joint Consumers state that they are skeptical that advanced metering technology of residential consumers would be cost-effective for the water industry.⁶⁴ DRA has similar concerns regarding the cost effectiveness of Advanced Metering Infrastructure (“AMI”) and Advanced Meter Reading (“AMR”) technologies but recommends that the Commission further investigate the applicability of this technology to the water industry. As DRA stated in its opening comments, creating a “metering information superhighway” with the “capacity to read multiple utility services at once” could “provide significant public benefit to California and its ratepayers.”⁶⁵ In addition, for any AMI project, DRA would want information available to ratepayers in an

⁶³ As with other terminology used in opening comments, the parties appear to have different definitions of avoided cost and differing perspectives about the use of avoided cost concepts. Having a way to calculate avoided cost is important for water utilities to use when they are comparing the benefits and costs of demand side and supply side alternatives for water supply and justifying water supply-related capital investment project alternatives. Knowing the avoided cost is important and essential in integrated resource planning. The selected “avoided costs” methodology must give consideration to various perspectives (economic, societal, cultural, political, environmental, utility, ratepayer.) to make the benefit-cost analysis comprehensive and not be isolated on merely considering the “utility avoided cost”.

⁶⁴ Joint Consumers’ Comments, p. 9.

⁶⁵ DRA Comments, pp. 15-17.

easily accessible and understandable format.⁶⁶ Thus, DRA recommends that the Commission establish a forum to gather additional information on AMI and AMR for water utilities. This forum could take the form of pilot programs or technical workshops, and would include the electric and gas utilities.⁶⁷

The Commission has already been evaluating AMI costs and benefits for the electric utilities. One of the Commission's notable findings on the electric utility AMI programs was that SDG&E's AMI application is not cost-effective.⁶⁸ Nevertheless, the Commission also stated, "We remain committed to our belief that the operational and [demand response] benefits of AMI technology should be made available statewide over time."⁶⁹ SDG&E's AMI application illustrates that AMI technology is not something to be approved without careful study of its absolute costs and benefits. DRA contends that water utilities considering AMI technology should examine its absolute costs and benefits as well as AMI's relative benefits compared to other infrastructure investments with conservation gains, such as developing recycled water infrastructure.

As AMI programs are developed by the electric and gas utilities, those programs should ensure that the technology is capable of reading and displaying water use as well. Even if AMI does not track water use in the near future, it may eventually do so, and should be easy to update when that time comes. Building this capacity into electric and gas utility AMI devices enables the Commission to thoroughly review AMI for water utilities before deciding whether electric and gas utility AMI devices should monitor water use or whether water ratepayers should be required to pay for a share of AMI costs.

⁶⁶ DRA has previously argued that ratepayers should be able to access AMI data in order to manage their energy consumption. DRA made this argument in testimony in Southern California Edison Company's Advanced Metering Infrastructure Deployment Application, A.07-07-026, January 25, 2008, pp. 1-2.

⁶⁷ One goal of such a forum would be to explore implications for ongoing meter installations and replacements and to ensure there is not stranded investments. For example, DRA notes that some utilities such as Park are installing or have installed AMR in their service area that run on a different protocol than the AMI system proposed by Southern California Edison. Were the Commission to mandate AMI across different utilities, Park's AMR investments might be stranded due to incompatible protocols between AMR and AMI technologies

⁶⁸ D.07-04-043, pp. 74-76.

⁶⁹ *Id.* at p. 76.

AMI could become an integral part of managing water demand. But, given benefit/cost uncertainties discussed above, DRA advises the Commission to move cautiously and deliberately to establish verifiable benefits before asking water ratepayers to help finance AMI technology. A reasonable next step would be a technical workshop to explore the technical and economic issues cited herein.

8. Enhancing Recycled Water Use

Increased use of recycled water will be a crucial element in meeting California's water needs. DRA applauds the Class A water utilities for supporting the increased use of recycled water. DRA concurs with CWA in its statement that "a source of supply of recycled water, separate transmission and distribution facilities, and a means for recovering utility investment in [recycled water facilities]"⁷⁰ are issues that the Commission should address for each Class A water utility. DRA disagrees, however, with CWA's assertion that, "At this juncture, it simply is premature to begin addressing objectives for recycled water on an industry-wide basis."⁷¹ DRA recommends that the Commission open a Rulemaking to address recycled water goals for each Class A water company and mechanisms for each utility to meet those goals. A Rulemaking focused on recycled water will enable the CPUC, DRA, CWA, the Class A utilities, and other interested parties to bring forth and evaluate arguments for how to equitably address the issues associated with enhanced use of recycled water.

Class A water utilities should explore all potential avenues for water recycling. In its comments on recycled water, CWA focuses on recycled water for non-potable use (*i.e.* irrigation). DRA notes that recycled water can also become potable water through groundwater replenishment. Groundwater replenishment has successfully provided potable water in Orange County since the 1970s.⁷² A Recycled Water Rulemaking would enable the Class A water utilities to explore opportunities for groundwater replenishment as well as non-potable use for recycled water. In its comments, CWA mentions cost

⁷⁰ CWA Comments, p. 11.

⁷¹ *Ibid.*

⁷² See <http://www.gwrsystem.com/> for details.

barriers associated with providing recycled water to existing residential and commercial customers.⁷³ In addition, CWA cites Valencia as an example where “new developments cannot use all the recycled water.”⁷⁴ DRA notes, however, that if the recycled water was provided to customers as potable water through a groundwater replenishment system, Valencia could use all of the recycled water and could reduce its dependence on water from the State Water Project, for a potential savings to ratepayers.⁷⁵ Thus, groundwater replenishment is a key issue that could be explored fully through a Rulemaking.

DRA agrees with CWA’s identification of the relationship between utility investments in recycled water infrastructure and rate base treatment as an issue the Commission should address. When discussing rate base treatment for investments in recycled water infrastructure, CWA states, “[a]ll necessary recycled water infrastructure that is not contributed by developers – distribution pipes and meters for example – should be added to the investments on which water utilities have the opportunity to earn a return.”⁷⁶ DRA notes that other entities besides developers could contribute to recycled water infrastructure. For example, wastewater treatment facilities, local governments, and even large existing industrial and commercial users may have reason to contribute to recycled water infrastructure, for realization of direct and indirect benefits. When these contributions are made, the Commission will need to examine carefully what portion of investment the water utilities are allowed to place into rate base.

Finally, DRA concurs with CWA that “if the Commission desires to increase the capability of Class A water companies to provide recycled water service, it must address the source of supply, infrastructure and rate base issues discussed [by CWA].”⁷⁷ A Rulemaking is the appropriate venue for the Commission to address these issues and to move towards recycled water use goals for each of the Class A water utilities. The

⁷³ CWA Comments, pp. 13-14.

⁷⁴ *Id.* at 14.

⁷⁵ According to its last General Rate Case filing, Valencia’s obtained 52 percent of its supply from the State Water Project in 2007.

⁷⁶ CWA Comments, p. 15.

⁷⁷ *Id.* at 16.

Commission may want to consider innovative mechanisms for the Class A water utilities to meet recycled water goals, such as phased goals (*e.g.* 5 percent by 2015 and 10 percent by 2020). DRA would welcome the opportunity to engage the Class A utilities and other interested parties in a discussion of these goals and mechanisms through the Rulemaking process.

9. Energy Savings and Greenhouse Gas (“GHG”) Emissions

The Commission should require the Class A water utilities to begin making cost-effective investments in energy efficiency. These investments could range from more efficient energy use in office space, vehicle use and procurement, and water production and distribution facilities. DRA lauds Park on converting its Heating, Ventilation, and Air Conditioning (“HVAC”) units to be more energy efficient.⁷⁸ DRA also commends Apple Valley Ranchos on analyzing the benefit/cost ratios for various energy saving projects.⁷⁹ As Apple Valley states in its comments, some energy saving investments do not have positive benefit/cost ratios. DRA agrees with Apple Valley that currently not all energy efficiency investments have positive benefit/cost ratios. Therefore, DRA does not recommend that the Commission adopt across the board requirements for energy efficiency investments from the Class A water utilities. DRA does, however, recommend that the Commission takes steps to ensure that Class A utilities incorporate comprehensive filings on energy savings as required by the Rate Case Plan.⁸⁰ DRA intends to closely scrutinize the Class A water utilities’ GRC applications to ensure that Class A water utilities are complying with the Commission’s directive and are incorporating benefit/cost based justifications for their energy savings investments.

One area where the Class A water utilities can improve their energy efficiency is through vehicle procurement. There are numerous safe, reliable, and economical fuel-efficient vehicles on the market. Both ratepayers and utilities could benefit from utility

⁷⁸ Park Water Comments, p. 19.

⁷⁹ Apple Valley Comments, pp. 8-9.

⁸⁰ The Rate Case Plan, D.07-05-062, adopted minimum data requirements in Appendix A that includes a section on questions related to energy efficiency.

use of these vehicles, since they are less costly and more fuel-efficient than others being purchased. DRA does not recommend that Class A water utilities purchase hybrid or other vehicles that utilize emerging technologies (*i.e.* hydrogen), but rather that the Class A water utilities make vehicle purchases based upon cost and GHG analysis. DRA expects to provide additional scrutiny to utility vehicle purchase practices in future GRC filings.

10. The Commission Should Require All of the Class A Water Utilities to Join the California Climate Action Registry

Both Park and Apple Valley are members of the California Climate Action Registry (Registry). In its comments regarding the Registry, Park states:

Park joined the Climate Action Registry as it was deemed appropriate in our circumstances. As other water utilities' circumstances may differ from those of Park, we would hesitate to suggest that the Commission require membership. If the Commission generally believes joining the Climate Action Registry to be good public policy, Park would suggest that the Commission provide for an exception process that could be used if a utility's circumstances showed that not joining or discontinuing was the prudent option.⁸¹

DRA contends that all Class A water utilities have a GHG emissions profile that will require proper accounting and reduction strategies under California state law.⁸² Thus, it is good public policy for the Class A Water Utilities to become Registry members sooner rather than later. In addition, DRA disagrees with Park's proposal that the Commission provide for an exception process. As stated above, all of the Class A water utilities have circumstances (*e.g.* energy intensive operations) that will make them liable for reporting and reducing their GHG emissions. There is no good reason for why a Class A water utility should not become a member of the Registry.

⁸¹ Park Comments, p. 22.

⁸² Calif. Health and Safety Code §§ 38500 *et al.*

The Registry “was established by California statute as a non-profit voluntary registry for greenhouse gas (“GHG”) emissions.⁸³” The key feature of the Registry is ‘CARROT,’ its tool for calculating and reporting GHG emissions. Organizations that become Registry members use CARROT and have their emissions numbers certified by an independent reviewer. The electric utilities have already become Registry members. The benefits of requiring the Class A water utilities to use the Registry are twofold. First, by identifying ways to reduce their GHG emissions, the Class A water utilities may also identify technologies that reduce their operating costs. Second, by familiarizing themselves with the CARROT tool now, the utilities will be ahead of the curve in implementing the GHG reduction strategies that will be required by the Air Resources Board (CARB).⁸⁴ This advance knowledge could ultimately result in cost-savings. For companies with revenues between \$20 and \$100 million (most of the Class A water utilities), the annual Registry membership fee is \$1500.⁸⁵ Both Park and Apple Valley are members of the Registry. Apple Valley has reported data to the Registry for the past three years without burdening its operations.⁸⁶ Thus, DRA recommends that the Commission require that all Class A water utilities become Registry members.

IV. CONCLUSION

As DRA stated in its opening comments, “The Commission has made significant progress in implementing the policy objectives it outlined in the WAP.”⁸⁷ Phase 2 of the Conservation OII provides the Commission with additional opportunity to show leadership on water conservation. If the Commission adopts DRA’s recommendations for Phase 2 issues both water utilities and consumers will benefit from effective conservation measures and comprehensive supply planning. Non-price conservation

⁸³ From the Registry’s website, located at: <http://www.climateregistry.org/>.

⁸⁴ Calif. Health and Safety Code §§ 38500 *et al.*

⁸⁵ From the Registry’s website, located at: <http://www.climateregistry.org/>

⁸⁶ Apple Valley Comments, p. 10.

⁸⁷ DRA opening comments, p. 18.

measures must have verifiable and cost-effective savings, and must be equitable and coordinated with regional partners. Furthermore, additional supply infrastructure must be evaluated in conjunction with demand-side management. Achieving the Governor's water efficiency goal and a sustainable urban water supply requires prudent investment, cooperation, and creativity. By adopting DRA's recommendations, the Commission can motivate the Class A water utilities to use all three. DRA looks forward to continuing its engagement with all of the parties to attain crucially needed urban water conservation.

Respectfully submitted,

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June 17, 2008

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of “**COMMENTS OF THE DIVISION OF RATEPAYER ADVOCATES ON PHASE 2 ISSUES**” in **R.08-01-025** by using the following service:

[X] **E-Mail Service:** sending the entire document as an attachment to an e-mail message to all known parties of record to this proceeding who provided electronic mail addresses.

[X] **U.S. Mail Service:** mailing by first-class mail with postage prepaid to all known parties of record who did not provide electronic mail addresses.

Executed on June 17, 2008 at San Francisco, California.

/s/ Imelda Eusebio

Imelda Eusebiok

N O T I C E

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address and/or e-mail address to insure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.

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